

# YUGANG

YUGANG INTERNATIONAL LIMITED

(Stock Code : 613)

# 2006

INTERIM REPORT



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# Corporate Information

## Executive Directors

Mr. Cheung Chung Kiu (*Chairman*)  
Mr. Yuen Wing Shing (*Managing Director*)  
Mr. Zhang Qing Xin  
Mr. Lam Hiu Lo  
Mr. Liang Kang

## Non-Executive Director

Mr. Lee Ka Sze, Carmelo

## Independent Non-Executive Directors

Mr. Wong Wai Kwong, David  
Mr. Wong Yat Fai  
Mr. Ng Kwok Fu

## Audit Committee

Mr. Wong Wai Kwong, David  
Mr. Lee Ka Sze, Carmelo  
Mr. Wong Yat Fai  
Mr. Ng Kwok Fu

## Remuneration Committee

Mr. Cheung Chung Kiu  
Mr. Wong Yat Fai  
Mr. Ng Kwok Fu

## Secretary

Albert T. da Rosa, Jr.

## Auditors

Ernst & Young

## Qualified Accountant

Mr. Leung Wai Fai

## Bankers

The Hongkong and Shanghai Banking  
Corporation Limited  
Bank of China (Hong Kong) Limited

## Solicitors

Woo Kwan Lee & Lo  
Cheung, Tong & Rosa

## Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited  
6 Front Street  
Hamilton HM11  
Bermuda

## Share Registrar and Transfer Office in Hong Kong

Tengis Limited  
26th Floor  
Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## Registered Office

Clarendon House  
Church Street  
Hamilton HM11  
Bermuda

## Head Office and Principal Place of Business in Hong Kong

Rooms 3301-3307  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

## Website Address

<http://www.yugang.com.hk>

## Stock Code

613

# Management Discussion and Analysis

## Business Review

During the period under review, the Group's consolidated net profit attributable to the equity holders was HK\$125.4 million, up 9.1% from HK\$115 million for the corresponding period of last year. Earnings per share for the six-month period of 2006 increased to HK1.44 cents (2005: HK1.36 cents).

The turnover of the Group for the six months ended 30 June 2006 was HK\$428.5 million, representing a 246% hike or a notable increase of HK\$304.6 million. It was largely attributable to the acquisition of a 60%-owned subsidiary, Hoi Tin Universal Limited ("Hoi Tin") in July 2005. Following the acquisition, the turnover and operating result of Hoi Tin was consolidated into the Group pursuant to the Hong Kong Accounting Standards issued by The Hong Kong Institute of Certified Public Accountants ("HKICPA"). Apart from Hoi Tin, other business segments of the Group also recorded a satisfactory growth in the turnover during the period.

The economy of Hong Kong continued to flourish in the first half of 2006. Local bankers and some credit rating agencies lifted up the full year forecast of economic growth of Hong Kong. The GDP growth rate was 8.2% for the first quarter of 2006 and it is expected to be above 5% throughout the year. The consumer spending and business confidence have been improved to strengthen investors' mind toward the future. The unemployment rate appeared to be falling and wages were expected to be rising simultaneously.

### Performance of the Group's Business

#### *Packaging and Luggage Business*

Qualipak International Holdings Ltd ("Qualipak"), a company listed on the main board of The Stock Exchange of Hong Kong Ltd ("Stock Exchange"), is engaged in the manufacturing of packaging products, soft luggage and travel bags. Qualipak recorded a net profit after tax and minority interests of HK\$37.5 million for the first half of 2006, representing an increase of 118.8% from the last corresponding period.

During the period covered by the interim report, the sale revenue of packaging products increased by 17.4% to HK\$151.9 million. The segment of packaging business had an operating profit of HK\$17.8 million for the period. The demand of packaging products remained strong in Europe and local markets. The export to Europe during the period increased to 38.7%, contributing to the packaging business revenue while sales to America reduced 5.1% to 23.3%. Local sales recorded a remarkable growth as a result of the strong recovery of consumer spending and business confidence of local markets.

The gross margin of packaging products remained stable. The effect of fluctuation in the price of raw materials and increasing labour costs were partly offset by the moderate increase in the average selling prices.

During the period under review, Qualipak continued to consolidate the luggage business acquired in July last year. Certain plans of post-acquisition integration have been implemented to tighten cost control and streamline operations to enable higher productivity. The turnover of the luggage business was HK\$221.7 million and an operating profit of HK\$1.0 million was recorded for the period.

# Management Discussion and Analysis

## ***Property Investment Business***

Y.T. Realty Group Limited ("Y.T. Realty"), a major associate of the Group, is the flagship of the property investment business of the Group. Y.T. Realty is a company listed on the main board of Stock Exchange and is principally engaged in property investment and property trading. The major investment properties currently held by Y.T. Realty include whole block of Century Square and Prestige Tower situate in the core of Central District and Tsimshatsui ("Investment Properties").

During the first half of the year, Y.T. Realty recorded a net profit after tax of HK\$155.7 million, representing a decrease of 43.5% from the corresponding period of 2005. The Group's share of net profit after tax from Y.T. Realty for the period decreased to HK\$53.2 million (2005: HK\$90.4 million). The fluctuation of revaluation surplus of investment properties and change in fair value of an unlisted option and an unlisted convertible note granted by an associate of Y.T. Realty were the major factors leading to the decrease of its net profit for the period. There will be little difference in the net profit after tax of Y.T. Realty from the last corresponding period if the effect of exceptional items were excluded.

Gross rental income from Investment Properties for the period was HK\$42.3 million, up 2.8% from the last corresponding period. There was an upward adjustment in the rental and occupancy rate. The transformation program from offices to retail and commercial usage is approaching its completion.

## ***Infrastructure Business***

The infrastructure business of the Group is an indirect investment in Western Harbour Tunnel through The Cross-Harbour (Holdings) Ltd ("Cross-Harbour"), a company listed on the main board of Stock Exchange and a principal associate of Y.T. Realty.

Cross-Harbour is engaging in investment and management of tunnels and highways, motoring schools and electronic toll collection system. During the first half of 2006, the revenue of tunnel operation increased satisfactory due to the rise of daily throughput of the Western Harbour Tunnel by 8% to about 42,500 vehicles journeys. Given positive sentiment of the economy and favorable return of the tunnel operation, Cross-Harbour recorded a net profit after tax and minority interests of HK\$85.4 million for the period, representing an increase of 17.1% from the last corresponding period.

## ***Treasury Investment***

The Group consistently maintained the application of available fund for treasury investment. During the period under review, the treasury investment recorded a net profit of HK\$56.3 million.

## ***PRC Trading Business***

During the period, the PRC trading business of the Group recovered gradually and recorded a turnover of HK\$20.3 million. The emergence of such trading opportunities has fostered a positive trading prospect to the Group.

# Management Discussion and Analysis

## Prospect

The Group is optimistic about the medium-term outlook of the economy as US interest rate hike cycle is expected to end. Major economic indicators are still showing positive signs and consumer confidence index is pointing high to indicate favorable investment opportunities.

The local and European markets will remain its economic momentum that will give the packaging business a satisfactory growth. After a successful integration of luggage business, Qualipak will be able to benefit from improving operational efficiency, enlarging customer base and taking advantage of the expansion in the tourism industry of Hong Kong. The luggage business is expected to generate more profit in the coming year when the productivity is being increased in a gradual and systematic way.

The economy of China is expected to continue its energetic growth. Even the central government has launched certain policies for economic adjustment in the third quarter, there was no adverse effect on the consumer market and thereby remain to give a favorable trading environment and positive prospect of the Group.

Y.T. Realty has completely shifted its tenants' profile to retail and commercial nature. The rent of retail or commercial tenants are much more favorable when compared with other similar office buildings of similar grade. Y.T. Realty is planning to implement further improvements including upgrading of building facilities and re-configuration of space in the building during the second half of the year in order to augment revenue and property profile.

In addition to the contribution from the associate, Y.T. Realty, the Group has successfully struck a balance among its three core operations of PRC trading, manufacturing and sale of packaging products, and treasury investment.

The Group continues its long established strategic investment policies to pursue opportunities to broaden the asset base with steady income stream and focus on maintaining growth with sound financial and management capabilities.

## Financial Review

### Financial Performance

The gross profit increased by HK\$60.6 million for the period when the net profit on securities trading recorded an increase of HK\$36.3 million from the last corresponding period and the result of Hoi Tin had been consolidated. The selling and administrative expenses increased as the Group consolidated the operating cost of Hoi Tin for the period.

Share of results of associates decreased by HK\$35.1 million or 39.5% over the last corresponding period. Y.T. Realty recorded a property revaluation surplus of HK\$86.2 million for the period, a decrease of HK\$33.4 million from the last corresponding period.

### Financial Position

As at 30 June 2006, the consolidated net asset value of the Group was HK\$2,183.6 million, up 4.8% from HK\$2,084 million at 31 December 2005. The consolidated net asset value per share was about HK\$0.25. The Group's total assets and total liabilities (excluding minority interests of HK\$213.7 million) were HK\$2,671 million and HK\$273.7 million respectively.

# Management Discussion and Analysis

## Liquidity and Financial Resources

As at 30 June 2006, the Group had a bank borrowing of HK\$35.9 million when the Group consolidated the accounts of Hoi Tin. The Group's cash and cash equivalent was HK\$364.1 million, representing 16.7% of the consolidated net assets (excluding minority interests) of the Group.

As at 30 June 2006, the Group had a working capital ratio of approximately 6.3 and a gearing ratio, being defined as long-term liabilities to shareholders' fund of approximately 2.7%. In addition, the Group was granted sufficient lines of credit available from financial institutions. All of these indicated that the Group has sufficient working capital to support its operation.

## Contingent Liabilities

As at 30 June 2006, the Group has contingent liabilities amounted to HK\$12 million, being corporate guarantees given to banks for securing general banking facilities granted to an associated company. Apart from this, the Group has no other material contingencies.

## Capital Structure

The Company issued a convertible note of HK\$70,000,000 (the "Note") on 31 July 2004 with interest-bearing at a rate of 3% per annum payable in arrear. The Note will mature on 31 July 2007.

A principal amount of HK\$20,325,000 of the Note had been exercised in July 2005 and a total number of 271,000,000 shares of the Company was issued. There was no conversion of the Note during the period under review and the outstanding principal amount of the Note as at 30 June 2006 was HK\$49,675,000.

## Exchange Risk

Most bank deposits of the Group are maintained in Hong Kong dollars and US dollars because most of the sales and purchases of raw materials are denominated in these currencies. Hence, the Group's exposure to foreign exchange risk is minimal.

## Pledge of Assets

As at 30 June 2006, the Group has pledged its leasehold and investment properties with an aggregate carrying value of approximately HK\$67,554,000 and time deposits of approximately HK\$11,540,000 as security for general banking facilities granted to the Group.

## Significant Investments

The Group maintained its equity investment in Y.T Realty with a carrying value of HK\$846.7 million as at 30 June 2006. The net profit of Y.T Realty for the period was HK\$155.7 million.

As at 30 June 2006, the Group held a portfolio of listed securities with market value of HK\$523.9 million. The dividend income for the period was HK\$8.7 million. The total net gain from securities investment for the period was amounted to HK\$47.1 million.

## Employees

As at 30 June 2006, the Group has approximately 6,340 employees.

The remuneration policy of the Company is to ensure external competitiveness through reference to market survey. The pay scale of the employees are closely linked to their performance and contributions to the Group. Other employees benefits include MPF, share option scheme, medical insurance and discretionary training subsidies.

## Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2006 (2005: Nil)

## Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 30 June 2006, the interests and short positions of directors and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### The Company

#### (I) Interests in ordinary shares of the Company

| Name of Director     | Number of shares held | Nature of interests   | Percentage of issued share capital |
|----------------------|-----------------------|-----------------------|------------------------------------|
| Mr. Cheung Chung Kiu | 3,465,434,684         | Corporate<br>(Note 1) | 39.72%                             |
| Mr. Zhang Qing Xin   | 53,320,000            | Personal              | 0.61%                              |
| Mr. Lam Hiu Lo       | 13,600,000            | Personal              | 0.16%                              |
| Mr. Lam Hiu Lo       | 41,800,000            | Personal              | 0.48%                              |
| Mr. Liang Kang       | 30,000,000            | Personal              | 0.34%                              |

#### (II) Interests in the convertible note of the Company

| Name of Director     | Convertible note held<br>HK\$ | Number of underlying shares held | Nature of interests   | Percentage of issued share capital |
|----------------------|-------------------------------|----------------------------------|-----------------------|------------------------------------|
| Mr. Cheung Chung Kiu | 49,675,000                    | 605,792,682                      | Corporate<br>(Note 2) | 6.94%                              |

### Associated Corporations

#### (I) Interests in ordinary shares of Qualipak International Holdings Limited, a listed subsidiary of the Company

| Name of Director        | Number of shares held | Holding capacity      | Percentage of issued share capital |
|-------------------------|-----------------------|-----------------------|------------------------------------|
| Mr. Cheung Chung Kiu    | 2,542,396,360         | Corporate<br>(Note 3) | 64.54%                             |
| Mr. Lee Ka Sze, Carmelo | 1,000,000             | Family                | 0.025%                             |
| Mr. Ng Kwok Fu          | 120,000               | Personal              | 0.003%                             |



## Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

### (II) *Interests in ordinary shares of Y.T. Realty Group Limited, a listed associate of the Company*

| Name of Director     | Number of<br>shares held | Holding<br>capacity    | Percentage<br>of issued<br>share capital |
|----------------------|--------------------------|------------------------|------------------------------------------|
| Mr. Cheung Chung Kiu | 273,000,000              | Corporate<br>(Note 4)  | 34.14%                                   |
| Mr. Ng Kwok Fu       | 90,000                   | Personal and<br>family | 0.01%                                    |

*Notes:*

- (1) 3,194,434,684 shares are held by Chongqing Industrial Limited ("Chongqing") and 271,000,000 shares are held by Timmex Investment Limited ("Timmex").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.

- (2) The convertible note is held by Timmex, in which Mr. Cheung Chung Kiu has 100% beneficial interests. Pursuant to the terms of the convertible note, the number of shares that may be converted into the ordinary shares of the Company is 605,792,682.
- (3) 2,542,396,360 shares are held by Regulator Holdings Limited which is indirectly controlled by Palin Holdings Limited as trustee for Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.
- (4) 273,000,000 shares are held by Funrise Limited which is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

In addition to the above, some directors have non-beneficial personal interests in some subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2006, none of the directors and chief executive had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

No share option was granted during the six months ended 30 June 2006 under the new share option scheme adopted by the Company on 29 April 2005 and there was no outstanding option at the beginning or at the end of the period.

## Discloseable Interests and Short Positions of Shareholders Under the SFO

As at 30 June 2006, the following persons (other than as disclosed in the section headed "Interests and short positions of directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations" in this report) who have interests or short positions in the shares and underlying shares as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

| Name of Shareholders             | Number of shares/<br>underlying shares held | Percentage<br>of issued<br>share capital |
|----------------------------------|---------------------------------------------|------------------------------------------|
| Palin Holdings Limited           | 3,194,434,684 (Note 1)                      | 36.62%                                   |
| Chongqing                        | 3,194,434,684 (Note 2)                      | 36.62%                                   |
| Timmex                           | 876,792,682 (Note 3)                        | 10.05%                                   |
| PMA Capital Management Limited   | 699,496,000                                 | 8.02%                                    |
| Deutsche Bank Aktiengesellschaft | 626,250,000                                 | 7.18%                                    |

*Notes:*

- Palin Holdings Limited is the trustee for Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.
- The voting rights of these shares are exercisable by Chongqing which is controlled by Mr. Cheung Chung Kiu.
- The interests represent the aggregate of 271,000,000 ordinary shares and 605,792,682 shares issuable upon the exercise of the conversion rights attaching to the convertible note of HK\$49,675,000 which are held by Timmex, in which Mr. Cheung Chung Kiu has 100% beneficial interest.

Save as disclosed above, as at 30 June 2006, none of the substantial shareholder had a short position in the shares and underlying shares of the Company as required to be recorded in the register maintained by the Company pursuant to section 336 of the SFO.

# Corporate Governance

The Board is committed to maintaining good corporate governance, consistently enhancing transparency and effective accountability in order to maximize shareholder's benefit. Detailed disclosure of the Company's corporate governance practices was stated in the 2005 Annual Report.

The Company has complied with the code provisions (the "Code Provisions") set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report except for the deviation from Code Provision A.4.2.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, the rotation of directors at the annual general meeting of the Company held on 29 May 2006 was in accordance with the previous bye-laws of the Company which stipulates that at each annual general meeting not exceeding one-third of the directors for the time being shall retire from office by rotation provided that the chairman of the Board and/or the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

To fully comply with the Code Provisions, at the annual general meeting of the Company held on 29 May 2006, a special resolution was passed to amend the Company's bye-laws to the effect that every directors (including the chairman and managing director) shall be subject to retirement by rotation at least once every three years and all directors appointed to fill a casual vacancy should also be subject to election by shareholders at the first general meeting after their appointment.

Therefore, the Company has fully complied with Code Provision A.4.2 since 29 May 2006.

## **Model Code for Securities Transactions by Directors**

The Company has adopted the Codes for Securities Transactions by Directors on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 of the Listing Rules.

Following specific enquiry by the Company, all directors have confirmed that they have, throughout the six months ended 30 June 2006, complied with the required standard set out in the Model Code and the Codes for Securities Transactions by Directors.

## **Audit Committee**

The Audit Committee has discussed with the management and the external auditors on the accounting principles and policies adopted by the Company, and has reviewed the Company's interim financial statements for the six months ended 30 June 2006.

## **Purchase, Sale or Redemption of Shares**

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the six months ended 30 June 2006.

## **Appreciation**

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to all management and staff members for their diligence and dedication throughout the period.

By order of the Board  
**Yuen Wing Shing**  
*Managing Director*

Hong Kong, 12 September 2006

# Condensed Consolidated Income Statement

For the six months ended 30 June 2006

|                                                                                 | Notes | For the six months<br>ended 30 June |                                 |
|---------------------------------------------------------------------------------|-------|-------------------------------------|---------------------------------|
|                                                                                 |       | 2006<br>(Unaudited)<br>HK\$'000     | 2005<br>(Unaudited)<br>HK\$'000 |
| REVENUE                                                                         |       | 428,466                             | 123,889                         |
| Cost of sales                                                                   |       | (346,270)                           | (102,334)                       |
| Gross profit                                                                    |       | 82,196                              | 21,555                          |
| Other income and gains                                                          | 4     | 99,161                              | 108,791                         |
| Selling and distribution costs                                                  |       | (8,585)                             | (4,002)                         |
| Administrative expenses                                                         |       | (57,197)                            | (38,423)                        |
| Other expenses                                                                  | 5     | (13,985)                            | (51,801)                        |
| Finance costs                                                                   | 6     | (6,961)                             | (2,309)                         |
| Share of results of:                                                            |       |                                     |                                 |
| A jointly-controlled entity                                                     |       | (359)                               | (900)                           |
| Associates                                                                      |       | 53,777                              | 88,859                          |
| PROFIT BEFORE TAX                                                               | 7     | 148,047                             | 121,770                         |
| Tax                                                                             | 8     | (9,842)                             | (773)                           |
| PROFIT FOR THE PERIOD                                                           |       | 138,205                             | 120,997                         |
| ATTRIBUTABLE TO:                                                                |       |                                     |                                 |
| Equity holders of the Company                                                   |       | 125,435                             | 114,966                         |
| Minority interests                                                              |       | 12,770                              | 6,031                           |
|                                                                                 |       | 138,205                             | 120,997                         |
| EARNINGS PER SHARE ATTRIBUTABLE TO<br>ORDINARY EQUITY HOLDERS OF<br>THE COMPANY | 10    |                                     |                                 |
| Basic                                                                           |       | 1.44 HK cents                       | 1.36 HK cents                   |
| Diluted                                                                         |       | 1.36 HK cents                       | 1.24 HK cents                   |

# Condensed Consolidated Balance Sheet

30 June 2006

|                                                  | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|--------------------------------------------------|------------------------------------------------------|----------------------------------------------|
| <i>Notes</i>                                     |                                                      |                                              |
| <b>NON-CURRENT ASSETS</b>                        |                                                      |                                              |
| Property, plant and equipment                    | <b>131,333</b>                                       | 134,054                                      |
| Investment properties                            | <b>11,100</b>                                        | 55,169                                       |
| Prepaid land lease payments                      | <b>142,040</b>                                       | 143,564                                      |
| Goodwill                                         | <b>35,297</b>                                        | 35,297                                       |
| Investment in a jointly-controlled entity        | <b>—</b>                                             | 3,669                                        |
| Interests in associates                          | <b>881,921</b>                                       | 839,451                                      |
| Convertible debentures and notes                 | <b>95,427</b>                                        | 52,811                                       |
| Loans receivable                                 | <b>1,000</b>                                         | 2,000                                        |
| Available-for-sale equity investment             | <b>—</b>                                             | 20,000                                       |
| Other assets                                     | <b>13,141</b>                                        | 19,101                                       |
| Total non-current assets                         | <b>1,311,259</b>                                     | 1,305,116                                    |
| <b>CURRENT ASSETS</b>                            |                                                      |                                              |
| Investments at fair value through profit or loss | <b>523,868</b>                                       | 396,696                                      |
| Loans receivable                                 | <b>209,991</b>                                       | 173,237                                      |
| Inventories                                      | <b>83,888</b>                                        | 86,014                                       |
| Tax recoverable                                  | <b>294</b>                                           | 294                                          |
| Trade debtors                                    | <b>131,468</b>                                       | 87,813                                       |
| Other debtors, deposits and prepayments          | <b>21,553</b>                                        | 18,236                                       |
| Bills receivable                                 | <b>10,089</b>                                        | 6,901                                        |
| Prepaid land lease payments                      | <b>2,921</b>                                         | 2,906                                        |
| Pledged time deposits                            | <b>11,540</b>                                        | 10,345                                       |
| Time deposits                                    | <b>307,189</b>                                       | 436,078                                      |
| Cash and bank balances                           | <b>56,958</b>                                        | 73,861                                       |
| Total current assets                             | <b>1,359,759</b>                                     | 1,292,381                                    |
| <b>CURRENT LIABILITIES</b>                       |                                                      |                                              |
| Bills payable and trust receipt loans, secured   | <b>245</b>                                           | 663                                          |
| Trade creditors                                  | <b>110,669</b>                                       | 100,404                                      |
| Tax payable                                      | <b>23,356</b>                                        | 72,799                                       |
| Other payables                                   | <b>3,249</b>                                         | 3,439                                        |
| Accrued expenses                                 | <b>22,230</b>                                        | 33,980                                       |
| Customers' deposits received                     | <b>10,942</b>                                        | 11,269                                       |
| Interest-bearing bank borrowings                 | <b>35,899</b>                                        | 15,448                                       |
| Loans from minority shareholders                 | <b>8,000</b>                                         | 8,000                                        |
| Total current liabilities                        | <b>214,590</b>                                       | 246,002                                      |
| <b>NET CURRENT ASSETS</b>                        | <b>1,145,169</b>                                     | 1,046,379                                    |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>     | <b>2,456,428</b>                                     | 2,351,495                                    |

# Condensed Consolidated Balance Sheet

30 June 2006

|                                                             |             | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
|-------------------------------------------------------------|-------------|------------------------------------------------------|----------------------------------------------|
|                                                             | <i>Note</i> |                                                      |                                              |
| <b>NON-CURRENT LIABILITIES</b>                              |             |                                                      |                                              |
| Convertible note                                            | 14          | <b>47,590</b>                                        | 46,680                                       |
| Other payables                                              |             | <b>8,000</b>                                         | 8,000                                        |
| Deferred tax liabilities                                    |             | <b>3,549</b>                                         | 3,491                                        |
| Total non-current liabilities                               |             | <b>59,139</b>                                        | 58,171                                       |
| Net assets                                                  |             | <b>2,397,289</b>                                     | 2,293,324                                    |
| <b>EQUITY</b>                                               |             |                                                      |                                              |
| <b>Equity attributable to equity holders of the Company</b> |             |                                                      |                                              |
| Issued capital                                              |             | <b>87,243</b>                                        | 87,243                                       |
| Reserves                                                    |             | <b>1,626,710</b>                                     | 1,652,567                                    |
| Retained profits                                            |             | <b>469,643</b>                                       | 344,208                                      |
|                                                             |             | <b>2,183,596</b>                                     | 2,084,018                                    |
| <b>Minority interests</b>                                   |             | <b>213,693</b>                                       | 209,306                                      |
| Total equity                                                |             | <b>2,397,289</b>                                     | 2,293,324                                    |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

|                                                       | Issued<br>capital<br>(Unaudited)<br>HK\$'000 | Share<br>premium<br>(Unaudited)<br>HK\$'000 | Contributed<br>surplus<br>(Unaudited)<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>(Unaudited)<br>HK\$'000 | Investment<br>property<br>revaluation<br>reserve<br>(Unaudited)<br>HK\$'000 | Equity                                                             | Other<br>reserves<br>(Unaudited)<br>HK\$'000 | Retained<br>profits<br>(Unaudited)<br>HK\$'000 | Proposed<br>final<br>dividend<br>(Unaudited)<br>HK\$'000 | Minority<br>interests<br>(Unaudited)<br>HK\$'000 | Total<br>equity<br>(Unaudited)<br>HK\$'000 |           |
|-------------------------------------------------------|----------------------------------------------|---------------------------------------------|---------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------|------------------------------------------------|----------------------------------------------------------|--------------------------------------------------|--------------------------------------------|-----------|
|                                                       |                                              |                                             |                                                   |                                                               |                                                                             | component<br>of<br>convertible<br>notes<br>(Unaudited)<br>HK\$'000 |                                              |                                                |                                                          |                                                  |                                            |           |
| At 1 January 2005                                     | 84,533                                       | 840,629                                     | 760,799                                           | (419)                                                         | —                                                                           | 7,620                                                              | (1,699)                                      | 396,960                                        | 25,360                                                   | 2,113,783                                        | 223,233                                    | 2,337,016 |
| Acquisition of minority interests                     | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | —                                            | —                                              | —                                                        | —                                                | (26,673)                                   | (26,673)  |
| Deemed disposal of partial interests<br>in associates | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | 5                                            | —                                              | —                                                        | 5                                                | —                                          | 5         |
| Share of changes in other reserves<br>of associates   | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | 2,330                                        | —                                              | —                                                        | 2,330                                            | —                                          | 2,330     |
| Profit for the period                                 | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | —                                            | 114,966                                        | —                                                        | 114,966                                          | 6,031                                      | 120,997   |
| Dividend paid                                         | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | —                                            | —                                              | (25,360)                                                 | (25,360)                                         | (5,588)                                    | (30,948)  |
| At 30 June 2005                                       | 84,533                                       | 840,629*                                    | 760,799*                                          | (419)*                                                        | —*                                                                          | 7,620*                                                             | 636*                                         | 511,926                                        | —*                                                       | 2,205,724                                        | 197,003                                    | 2,402,727 |
| At 1 January 2006                                     | 87,243                                       | 858,931                                     | 760,799                                           | (302)                                                         | —                                                                           | 5,407                                                              | 1,559                                        | 344,208                                        | 26,173                                                   | 2,084,018                                        | 209,306                                    | 2,293,324 |
| Share of changes in other reserves<br>of associates   | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | 316                                          | —                                              | —                                                        | 316                                              | —                                          | 316       |
| Profit for the period                                 | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | —                                            | 125,435                                        | —                                                        | 125,435                                          | 12,770                                     | 138,205   |
| Dividend paid                                         | —                                            | —                                           | —                                                 | —                                                             | —                                                                           | —                                                                  | —                                            | —                                              | (26,173)                                                 | (26,173)                                         | (8,383)                                    | (34,556)  |
| At 30 June 2006                                       | 87,243                                       | 858,931*                                    | 760,799*                                          | (302)*                                                        | —*                                                                          | 5,407*                                                             | 1,875*                                       | 469,643                                        | —*                                                       | 2,183,596                                        | 213,693                                    | 2,397,289 |

\* These reserve accounts comprise the consolidated reserves of HK\$1,626,710,000 (2005: HK\$1,609,265,000) in the condensed consolidated balance sheet.

# Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

|                                                     | For the six months<br>ended 30 June |                                 |
|-----------------------------------------------------|-------------------------------------|---------------------------------|
|                                                     | 2006<br>(Unaudited)<br>HK\$'000     | 2005<br>(Unaudited)<br>HK\$'000 |
| NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES | (147,728)                           | 138,886                         |
| NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES | 21,352                              | (162,435)                       |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES          | (19,416)                            | (31,020)                        |
| NET DECREASE IN CASH AND CASH EQUIVALENTS           | (145,792)                           | (54,569)                        |
| Cash and cash equivalents at beginning of period    | 509,939                             | 557,614                         |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD          | 364,147                             | 503,045                         |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS   |                                     |                                 |
| Cash and bank balances                              | 56,958                              | 10,188                          |
| Non-pledged time deposits                           | 307,189                             | 492,857                         |
|                                                     | 364,147                             | 503,045                         |



# Notes to Condensed Interim Financial Statements

30 June 2006

## 1. Accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34 “Interim Financial Reporting”, issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31 December 2005, except that the Group has in the current period applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for the accounting periods commencing on or after 1 January 2006.

|                              |                                                                |
|------------------------------|----------------------------------------------------------------|
| HKAS 21 Amendment            | Net Investment in a Foreign Operation                          |
| HKAS 39 Amendment            | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment            | The Fair Value Option                                          |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts                                  |
| HK(IFRIC)-Int 4              | Determining whether an Arrangement contains a Lease            |

The adoption of the above new and revised HKFRSs has had no significant impact on the Group’s condensed consolidated interim financial statements.

The HKICPA has also issued a number of new HKFRSs which are not yet effective for the current reporting period. The Group has not early adopted those new HKFRSs in these condensed consolidated interim financial statements. The Group expects that the adoption of those new HKFRSs will not have significant impact on the Group’s financial statements in the period of initial application.

## 2. Significant accounting judgements and estimates

The Group continuously evaluates those judgements and estimates used in applying its accounting policies, based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from the estimates.

The estimates and assumptions applied in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of financial statements for the year ended 31 December 2005.

# Notes to Condensed Interim Financial Statements

30 June 2006

## 3. Segmental Information

An analysis by principal activity and geographical area of operations of the Group's turnover and segment results are summarised as follows:

### (a) Business segments

#### Group

For the six months ended 30 June 2006

|                                  | Trading of<br>automobile<br>parts and<br>other materials<br>(Unaudited)<br>HK\$'000 | Treasury<br>investment<br>(Unaudited)<br>HK\$'000 | Manufacture<br>and sale of<br>packaging<br>products<br>(Unaudited)<br>HK\$'000 | Manufacture<br>and sale of<br>luggage<br>products*<br>(Unaudited)<br>HK\$'000 | Property<br>and other<br>investments<br>(Unaudited)<br>HK\$'000 | Consolidated<br>(Unaudited)<br>HK\$'000 |
|----------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------|
| Segment revenue:                 |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 |                                         |
| Revenue from external customers  | 20,315                                                                              | 34,574                                            | 151,900                                                                        | 221,677                                                                       | —                                                               | 428,466                                 |
| Other revenue                    | —                                                                                   | —                                                 | —                                                                              | —                                                                             | 1,460                                                           | 1,460                                   |
| Total revenue                    | 20,315                                                                              | 34,574                                            | 151,900                                                                        | 221,677                                                                       | 1,460                                                           | 429,926                                 |
| Segment results                  | (1,676)                                                                             | 56,309                                            | 17,838                                                                         | 1,017                                                                         | 39,292                                                          | 112,780                                 |
| Unallocated expenses, net        |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 | (19,238)                                |
| Interest income on bank deposits |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 | 8,048                                   |
| Finance costs                    |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 | (6,961)                                 |
| Share of results of:             |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 |                                         |
| A jointly-controlled entity      | —                                                                                   | —                                                 | —                                                                              | —                                                                             | (359)                                                           | (359)                                   |
| Associates                       | —                                                                                   | —                                                 | —                                                                              | —                                                                             | 53,777                                                          | 53,777                                  |
| Profit before tax                |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 | 148,047                                 |
| Tax                              |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 | (9,842)                                 |
| Profit for the period            |                                                                                     |                                                   |                                                                                |                                                                               |                                                                 | 138,205                                 |

\* The segment represented the business of certain subsidiaries acquired in the second half of 2005.

# Notes to Condensed Interim Financial Statements

30 June 2006

## 3. Segmental Information *(continued)*

### (a) Business segments *(continued)*

For the six months ended 30 June 2005

|                                  | Trading of<br>automobile<br>parts and<br>other materials<br>(Unaudited)<br>HK\$'000 | Treasury<br>investment<br>(Unaudited)<br>HK\$'000 | Manufacture<br>and sale of<br>packaging<br>products<br>(Unaudited)<br>HK\$'000 | Property<br>and other<br>investments<br>(Unaudited)<br>HK\$'000 | Consolidated<br>(Unaudited)<br>HK\$'000 |
|----------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------|
| Segment revenue:                 |                                                                                     |                                                   |                                                                                |                                                                 |                                         |
| Revenue from external customers  | —                                                                                   | (5,528)                                           | 129,417                                                                        | —                                                               | 123,889                                 |
| Other revenue                    | —                                                                                   | —                                                 | —                                                                              | 348                                                             | 348                                     |
| Total revenue                    | —                                                                                   | (5,528)                                           | 129,417                                                                        | 348                                                             | 124,237                                 |
| Segment results                  | (1,726)                                                                             | 71,114                                            | 20,579                                                                         | (42,173)                                                        | 47,794                                  |
| Unallocated expenses, net        |                                                                                     |                                                   |                                                                                |                                                                 | (17,165)                                |
| Interest income on bank deposits |                                                                                     |                                                   |                                                                                |                                                                 | 5,491                                   |
| Finance costs                    |                                                                                     |                                                   |                                                                                |                                                                 | (2,309)                                 |
| Share of results of:             |                                                                                     |                                                   |                                                                                |                                                                 |                                         |
| A jointly-controlled entity      | —                                                                                   | —                                                 | —                                                                              | (900)                                                           | (900)                                   |
| Associates                       | —                                                                                   | —                                                 | —                                                                              | 88,859                                                          | 88,859                                  |
| Profit before tax                |                                                                                     |                                                   |                                                                                |                                                                 | 121,770                                 |
| Tax                              |                                                                                     |                                                   |                                                                                |                                                                 | (773)                                   |
| Profit for the period            |                                                                                     |                                                   |                                                                                |                                                                 | 120,997                                 |

# Notes to Condensed Interim Financial Statements

30 June 2006

## 3. Segmental Information *(continued)*

### (b) Geographical segments

*For the six months ended 30 June 2006*

|                                 | Hong Kong       | Elsewhere<br>in the PRC | North<br>and South<br>Americas | European<br>Union | Others          | Consolidated    |
|---------------------------------|-----------------|-------------------------|--------------------------------|-------------------|-----------------|-----------------|
|                                 | (Unaudited)     | (Unaudited)             | (Unaudited)                    | (Unaudited)       | (Unaudited)     | (Unaudited)     |
|                                 | <i>HK\$'000</i> | <i>HK\$'000</i>         | <i>HK\$'000</i>                | <i>HK\$'000</i>   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Segment revenue:                |                 |                         |                                |                   |                 |                 |
| Revenue from external customers | 81,261          | 20,315                  | 192,663                        | 109,378           | 24,849          | 428,466         |
| Other revenue                   | 1,460           | —                       | —                              | —                 | —               | 1,460           |
| Total revenue                   | 82,721          | 20,315                  | 192,663                        | 109,378           | 24,849          | 429,926         |

*For the six months ended 30 June 2005*

|                                 |        |   |        |        |       |         |
|---------------------------------|--------|---|--------|--------|-------|---------|
| Segment revenue:                |        |   |        |        |       |         |
| Revenue from external customers | 30,427 | — | 37,006 | 48,521 | 7,935 | 123,889 |
| Other revenue                   | 348    | — | —      | —      | —     | 348     |
| Total revenue                   | 30,775 | — | 37,006 | 48,521 | 7,935 | 124,237 |

# Notes to Condensed Interim Financial Statements

30 June 2006

## 4. Other income and gains

|                                                                                | Group                               |                                 |
|--------------------------------------------------------------------------------|-------------------------------------|---------------------------------|
|                                                                                | For the six months<br>ended 30 June |                                 |
|                                                                                | 2006<br>(Unaudited)<br>HK\$'000     | 2005<br>(Unaudited)<br>HK\$'000 |
| Gross rental income                                                            | 1,460                               | 348                             |
| Interest income on bank deposits                                               | 8,048                               | 5,491                           |
| Write-back of impairment loss on convertible note                              | —                                   | 3,907                           |
| Gain on disposal of subsidiaries                                               | 36,144                              | —                               |
| Excess over the cost of acquisitions of<br>additional interest in a subsidiary | —                                   | 9,525                           |
| Write-back of allowance for doubtful debts, net                                | —                                   | 4,352                           |
| Gain on derecognition of investments at<br>fair value through profit or loss   | 17,229                              | —                               |
| Gain arising from redemption of convertible note                               | 1,333                               | —                               |
| Fair value gains, net                                                          |                                     |                                 |
| Investments at fair value through profit or loss                               | 29,111                              | 81,527                          |
| Convertible debentures and notes                                               | —                                   | 1,571                           |
| Fair value gains on investment properties                                      | 1,930                               | —                               |
| Others                                                                         | 3,906                               | 2,070                           |
|                                                                                | <b>99,161</b>                       | <b>108,791</b>                  |

## 5. Other expenses

|                                                                           | Group                               |                                 |
|---------------------------------------------------------------------------|-------------------------------------|---------------------------------|
|                                                                           | For the six months<br>ended 30 June |                                 |
|                                                                           | 2006<br>(Unaudited)<br>HK\$'000     | 2005<br>(Unaudited)<br>HK\$'000 |
| Allowance for doubtful debts, net                                         | 2,341                               | —                               |
| Loss on deemed disposal of interests in associates                        | —                                   | 1,801                           |
| Losses arising from changes in fair value of conversion option derivative | 11,644                              | —                               |
| Impairment losses on available-for-sale equity investment                 | —                                   | 50,000                          |
|                                                                           | <b>13,985</b>                       | <b>51,801</b>                   |

# Notes to Condensed Interim Financial Statements

30 June 2006

## 6. Finance costs

|                                                                                          | <b>Group</b>                                |             |
|------------------------------------------------------------------------------------------|---------------------------------------------|-------------|
|                                                                                          | <b>For the six months<br/>ended 30 June</b> |             |
|                                                                                          | <b>2006</b>                                 | 2005        |
|                                                                                          | <b>(Unaudited)</b>                          | (Unaudited) |
|                                                                                          | <b>HK\$'000</b>                             | HK\$'000    |
| Interest on bank loans, overdrafts and other<br>loans wholly repayable within five years | 5,312                                       | 72          |
| Interest on convertible note                                                             | 1,649                                       | 2,237       |
|                                                                                          | <b>6,961</b>                                | 2,309       |

## 7. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

|                                                                             | <b>Group</b>                                |             |
|-----------------------------------------------------------------------------|---------------------------------------------|-------------|
|                                                                             | <b>For the six months<br/>ended 30 June</b> |             |
|                                                                             | <b>2006</b>                                 | 2005        |
|                                                                             | <b>(Unaudited)</b>                          | (Unaudited) |
|                                                                             | <b>HK\$'000</b>                             | HK\$'000    |
| Depreciation                                                                | 6,370                                       | 5,679       |
| Amortisation on prepaid land lease payments                                 | 1,509                                       | 287         |
| Impairment of goodwill of associates                                        | 1,900                                       | —           |
| Loss/(gain) on disposal of investments at fair value through profit or loss | (17,996)                                    | 18,338      |
| Gain on disposal of items in property, plant and equipment                  | (82)                                        | (12)        |

# Notes to Condensed Interim Financial Statements

30 June 2006

## 8. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

|                                      | <b>Group</b>                                |             |
|--------------------------------------|---------------------------------------------|-------------|
|                                      | <b>For the six months<br/>ended 30 June</b> |             |
|                                      | <b>2006</b>                                 | 2005        |
|                                      | <b>(Unaudited)</b>                          | (Unaudited) |
|                                      | <b>HK\$'000</b>                             | HK\$'000    |
| Hong Kong profits tax-current period | <b>9,842</b>                                | 1,497       |
| Deferred tax credit                  | —                                           | (724)       |
| Tax charge for the period            | <b>9,842</b>                                | 773         |

There were no significant potential deferred tax liabilities for which provision has not been made.

Share of tax attributable to associates amounting to HK\$6,567,000 (2005: HK\$4,392,000) is included in "share of results of associates" on the face of the condensed consolidated income statement.

## 9. Dividend

The board of directors (the "Board") of the company (the "Company") has resolved not to declare any interim dividend for the six months ended 30 June 2006 (2005: Nil).

## 10. Earnings per share attributable to ordinary equity holders of the Company

The calculation of basic earnings per share for the period ended 30 June 2006 is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$125,435,000 (2005: HK\$114,966,000) and the weighted average number of 8,724,321,700 (2005: 8,453,321,700) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the period ended 30 June 2006 is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$126,796,000 (2005: HK\$116,812,000) as adjusted for the interest saving on the conversion of the convertible note into ordinary shares of the Company. The weighted average number of ordinary shares used in the calculation is the sum of the number of ordinary shares in issue during the period used in the basic earnings per share calculation of 8,724,321,700 (2005: 8,453,321,700), and the weighted average of 605,792,682 (2005: 933,333,333) ordinary shares assumed to have been issued at no consideration on the deemed conversion of all convertible note into ordinary shares of the Company during the period.

# Notes to Condensed Interim Financial Statements

30 June 2006

## 11. Additions to property, plant and equipment and investment properties

During the period, the Group incurred approximately HK\$7,421,000 (2005: HK\$39,161,000) on the acquisition of property, plant and equipment. No additions to investment properties during the period. In prior period, the Group incurred approximately HK\$44,669,000 on the acquisition of investment properties.

## 12. Trade debtors

The aged analysis of trade debtors at the balance sheet date was as follows:

|                   | Group                                      |                                              |
|-------------------|--------------------------------------------|----------------------------------------------|
|                   | 30 June<br>2006<br>(Unaudited)<br>HK\$'000 | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
| 0 - 30 days       | 87,099                                     | 77,019                                       |
| 31 - 60 days      | 26,624                                     | 3,822                                        |
| More than 60 days | 17,745                                     | 6,972                                        |
|                   | <b>131,468</b>                             | 87,813                                       |

The Group allows an average credit period of 60 days to its customers.

## 13. Trade creditors

The aged analysis of trade creditors at the balance sheet date was as follows:

|                   | Group                                      |                                              |
|-------------------|--------------------------------------------|----------------------------------------------|
|                   | 30 June<br>2006<br>(Unaudited)<br>HK\$'000 | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
| 0 - 30 days       | 52,094                                     | 69,044                                       |
| 31 - 60 days      | 35,517                                     | 16,393                                       |
| More than 60 days | 23,058                                     | 14,967                                       |
|                   | <b>110,669</b>                             | 100,404                                      |

The trade creditors are non-interest-bearing and are normally settled on 60-day terms.



# Notes to Condensed Interim Financial Statements

30 June 2006

## 14. Convertible note

On 25 May 2004, the Company entered into an agreement with Timmex Investment Limited ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$70,000,000 (the "Note"). Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu, a director of the Company. The Note conferred the right on the holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from 31 July 2004 (the date of issuance) for a period of three years, at a conversion price of HK\$0.075 per share in the first year, HK\$0.082 per share in the second year and HK\$0.089 per share in the third year (subject to adjustment). The Note will mature for principal repayment on 31 July 2007. Interest on the Note is accrued from the date of issue on a day-to-day basis at 3% per annum on the principal amount of the Note and is payable annually in arrears.

On 29 July 2005, Timmex exercised the conversion right of the Note in an aggregate amount of HK\$20,325,000 resulting in the issue of 271,000,000 new ordinary shares of the Company.

Fair value of the liability component of the convertible note was determined, upon issuance, using the prevailing market interest rate for similar debt without a conversion option of 7.16% and is carried as a long-term liability. The remainder of the proceeds was allocated to the conversion option that is recognised and included in shareholders' equity.

## 15. Operating lease arrangements

### (a) As lessor

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

|                                         | Group                                      |                                              |
|-----------------------------------------|--------------------------------------------|----------------------------------------------|
|                                         | 30 June<br>2006<br>(Unaudited)<br>HK\$'000 | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
| Within one year                         | 544                                        | 497                                          |
| In the second to fifth years, inclusive | 541                                        | 276                                          |
|                                         | <b>1,085</b>                               | <b>773</b>                                   |

# Notes to Condensed Interim Financial Statements

30 June 2006

## 15. Operating lease arrangements *(continued)*

### (b) As lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|                                         | <b>Group</b>                                         |                                              |
|-----------------------------------------|------------------------------------------------------|----------------------------------------------|
|                                         | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
| Within one year                         | 996                                                  | 2,714                                        |
| In the second to fifth years, inclusive | 1,079                                                | 1,636                                        |
|                                         | <b>2,075</b>                                         | 4,350                                        |

## 16. Commitments

At the balance sheet date, the Group had capital commitments in respect of purchases of property, plant and equipment as follows:

|                                  | <b>Group</b>                                         |                                              |
|----------------------------------|------------------------------------------------------|----------------------------------------------|
|                                  | <b>30 June<br/>2006<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2005<br>(Audited)<br>HK\$'000 |
| Contracted, but not provided for | 787                                                  | 3,714                                        |

## 17. Contingent liabilities

At the balance sheet date, the Group executed a guarantee amounting to HK\$12,000,000 (31 December 2005: HK\$6,000,000) to a bank as securities for banking facilities granted to an associate.

# Notes to Condensed Interim Financial Statements

30 June 2006

## 18. Related party transactions

(a) The Group had the following transactions with related parties during the period:

|                                                                          |       | Group<br>For the six months<br>ended 30 June |                                 |
|--------------------------------------------------------------------------|-------|----------------------------------------------|---------------------------------|
|                                                                          |       | 2006<br>(Unaudited)<br>HK\$'000              | 2005<br>(Unaudited)<br>HK\$'000 |
|                                                                          | Notes |                                              |                                 |
| Rental expenses for office premises<br>paid to a substantial shareholder | (i)   | 498                                          | 470                             |
| Interest expense paid to a related company                               | (ii)  | 739                                          | 1,041                           |
| Sales of goods to a minority<br>shareholder of a subsidiary              |       | 13,431                                       | —                               |

Notes:

- (i) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited from an independent third party. Mr. Cheung Chung Kiu, a director of the Company, has beneficial interests in Chongqing Industrial Limited, which is a substantial shareholder of the Company. This transaction also constituted a connected transaction for the Company under the Listing Rules.
- (ii) The interest expense paid to a related company was in respect of the Note issued by the Company to Timmex as detailed in note 14 to the interim financial statements. The above transactions constituted connected transactions for the Company under the Listing Rules.

(b) Compensation of key management personnel of the Group:

|                                                     |  | Group<br>For the six months<br>ended 30 June |                                 |
|-----------------------------------------------------|--|----------------------------------------------|---------------------------------|
|                                                     |  | 2006<br>(Unaudited)<br>HK\$'000              | 2005<br>(Unaudited)<br>HK\$'000 |
| Short term employee benefits                        |  | 6,390                                        | 5,670                           |
| Post-employment benefits                            |  | 33                                           | 33                              |
| Long term employee benefits                         |  | 45                                           | 45                              |
| Total compensation paid to key management personnel |  | 6,468                                        | 5,748                           |

## 19. Post balance sheet event

On 31 July 2006, part of convertible note held by Timmex amounting to HK\$23,780,000 were converted into 290,000,000 shares of the Company of HK\$0.01 each at conversion price of HK\$0.082 per share. After completion of this transaction, Timmex had an equity interest of 6.22% of the enlarged capital in the Company.

## 20. Approval of the interim financial statements

These unaudited condensed consolidated interim financial statements were approved by the Board on 12 September 2006.